

STATE OF CALIFORNIA

LOTTERY COMMISSION

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CALIFORNIA STATE LOTTERY COMMISSION

MEETING

TIME: 10:00 a.m.

DATE: Thursday, April 25, 2013

PLACE: California State Lottery
Commission Headquarters
700 North Tenth Street
Sacramento, California

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TRANSCRIPT OF PROCEEDINGS

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JOHN SMOLIN
Vice Chair of the Commission

GREGORY AHERN

NATHANIEL KIRTMAN III

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continued

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Sacramento, California

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(Gavel was sounded.)

CHAIR TAGAMI: We'll go ahead and call the meeting to order at the hour of 10:05.

And we'll start with the Pledge of Allegiance.

(The Pledge of Allegiance was recited.)

CHAIR TAGAMI: And perfect timing.

So we'll do roll call, please.

MS. TOPETE: Commissioner Smolin?

VICE CHAIR SMOLIN: Here.

MS. TOPETE: Commissioner Kirtman?

COMMISSIONER KIRTMAN: Here.

MS. TOPETE: Commercial Ahern?

COMMISSIONER AHERN: Here.

MS. TOPETE: Chair Tagami?

CHAIR TAGAMI: Present.

There's nothing to report out of closed session.

And as we move into the approval of the agenda, I would just ask at the close of the meeting that we conclude with a moment of silence for those killed and injured in the recent Boston Marathon bomb attack.

Approval of the minutes for the February 21st

1 meeting?

2 COMMISSIONER AHERN: Make a motion.

3 VICE CHAIR SMOLIN: Second.

4 CHAIR TAGAMI: Go ahead and call the roll.

5 MS. TOPETE: Commissioner Smolin?

6 VICE CHAIR SMOLIN: Yes.

7 MS. TOPETE: Commissioner Kirtman?

8 COMMISSIONER KIRTMAN: Yes.

9 MS. TOPETE: Commissioner Ahern?

10 COMMISSIONER AHERN: Yes.

11 MS. TOPETE: Chair Tagami?

12 CHAIR TAGAMI: Yes.

13 And then Director's report.

14 DIRECTOR O'NEILL: Good morning, Commissioners.

15 This morning I'd like to provide you a general
16 business update. Introduce our Strategic Direction
17 three-year plan, an overview of that. Also, talk about
18 the ten major goals in that Strategic Direction document,
19 and provide you an overview of today's agenda.

20 As far as the general business update, it has
21 been a very, very busy last few weeks. We are very
22 gratified that we had a successful launch of POWERBALL®.
23 Things are going very, very well. The launch events in
24 Los Angeles, San Francisco, and Sacramento were very well
25 received.

1 And we've sold over \$30 million worth of
2 tickets in the last 17 days for POWERBALL®. And we
3 expect to sell more, because last night it rolled to
4 \$140 million.

5 So thus far, it's been a very good product for
6 us. And I'd like to thank all of our staff and our
7 management team who worked for the last nine months to
8 make that a reality. It's been a lot of hard work but
9 very gratifying for all of us.

10 As far as the general business update, looking
11 at the chart here, as you can see, the Scratchers®,
12 the Hot Spot®, and the Daily Games products are doing
13 well. They're all above last year in terms of sales.
14 We really have been surprised in terms of the overall
15 draw game performance in the last few weeks with the
16 introduction of POWERBALL®. Our combined sales of
17 POWERBALL® and MEGA Millions® reflected in the multistate
18 games category there, even though we're down for the
19 year, we're actually making up ground on last year, when
20 we had the record sale last March for MEGA Millions®.

21 So the combined POWERBALL® and MEGA Millions®
22 is performing well. It's above our expectations thus
23 far. And interestingly enough, SuperLotto Plus® has held
24 its own initially here. So we're happy with that.

25 Overall, we are still in a position, we

1 believe, right now, that we'll have total sales this year
2 higher than last year's total sales. We expect our
3 contribution to education to be a little bit less than
4 last year, though, because of the mix of our product
5 sales this year.

6 However, a couple good rolls may cure that,
7 too, so our continuing hope as a strategy philosophy is
8 intact.

9 As far as our strategic direction plan, we
10 started talking last fall about a strategic direction
11 document for the next three years for the Lottery. And
12 we had some sessions last fall with a variety of our
13 vendors. We also had a meeting of the Commission itself,
14 with the senior management team. And so our team has
15 been working on where the Lottery is going to be going
16 for the next three years.

17 And this morning, I'd like to just give you a
18 brief overview of that document; and then what we'll be
19 doing is giving you an actual draft document here in
20 early May.

21 Some of the overarching ideas we have in the
22 document:

23 First of all, we want to become one of the
24 largest and most profitable lotteries in the nation. I
25 think it's very important we have good growth, but it's

1 got to be profitable growth for public education in
2 California.

3 Doing that, we have to maintain the highest
4 integrity of our games and our business practices, so
5 people have confidence and trust in what we're doing.

6 We want to grow sales in a responsible manner.
7 As we continue to have growth in our sales, we have to
8 make sure we have good corporate social responsibility
9 around how we sell those games.

10 But the big part of this is, we're all focused
11 on trying, within three years, to hit the \$6 billion
12 mark in terms of sales. We think it's aggressive,
13 challenging; but I think all of us are up to taking it on
14 as a task.

15 There's four key themes in our approach for the
16 next three years. The first part of that is product. So
17 we have to increase the sales of all our products,
18 including our Scratchers® -- our Scratchers®, our draw
19 games, and other products.

20 Players, we all know that we have to build on
21 our playership, including our core players, addressing
22 our infrequent or lapsed players, and also trying to
23 attract new players.

24 The third theme is retailers. We have to grow
25 our retailer network. We want to focus our service on

1 our most productive retailers, and also those with the
2 highest growth potential.

3 And then the fourth major theme is
4 infrastructure. We have to continue to increase the
5 capacity of the Lottery to handle our business, including
6 higher sales, more retailers, and more players. And to
7 do this, through improving our business processes, our
8 training of our people, and the use of technology.

9 So with those four major themes in place, we
10 have ten major goals. I'm just going to briefly walk
11 through these goals for you.

12 Under the "products" theme, obviously, we have
13 to continue our Scratchers® enhancements. We're planning
14 on launching a \$20 Scratchers® game this fall. We're
15 also going to continue to work to grow our \$5 and \$10
16 games. And as of June -- as of next year, 2014, after
17 the first of the year, sometime, we'll be actually
18 implementing a rewards program for our players, to reward
19 them for being loyal Lottery players.

20 Second, we need to optimize the draw-game
21 product mix. We're going to watch very closely the
22 impact of POWERBALL® on the MEGA Millions® sales, as
23 well as the SuperLotto Plus® sales. We expect
24 cannibalization. Other states have had it for the
25 multistate game, MEGA Millions®, and for the in-state

1 games. So we're going to watch that.

2 We have plans right now. We're working with
3 the MEGA Millions® consortium, and other states involved
4 in the MEGA Millions® to do some things to change and
5 revitalize the MEGA Millions® game. And we also have our
6 own internal team working on our SuperLotto Plus® game
7 here in California, to do things to revitalize and
8 reinvigorate our SuperLotto Plus® game. And we're
9 continuing to look to identify opportunities, to
10 identify, develop, and test new games.

11 The second major theme is the players' theme.
12 We have to grow playership, as I said earlier. We all
13 know that our playership in California has kind of
14 stagnated in terms of the number of Californians playing
15 the Lottery. So we are developing strategies around the
16 different player segments.

17 First of all, our core players, we have to
18 retain them. We have to reach out to our infrequent and
19 lapsed players, and try to get them back involved. And
20 then we have to develop strategies to attract new
21 players, who have never played our games, or who haven't
22 participated in the Lottery.

23 Part of this is also improving our player
24 database and the information on players, so we could use
25 that improved data in our marketing and sales efforts.

1 The fourth major theme, the fourth major goal
2 is improving the Lottery's overall image with consumers
3 and stakeholders. We want to continue to focus on our
4 transparency and accountability of our activities, so
5 people respect the integrity of our game.

6 We also are focusing on winner awareness.
7 We've already stepped up that in the last six months or
8 so, and we are going to continue to step that up in the
9 near future.

10 And finally, we're trying a variety of events
11 and sponsorships and experiential marketing activities as
12 a way to get out more in the public eye, at a variety of
13 events throughout the state; and focus less on mass
14 advertising, and more on taking the game so much kind of
15 directly to the people.

16 A fifth major goal is expand our corporate
17 social responsibility program. As we grow, we have to
18 expand our problem-gambling awareness efforts.

19 We are also starting expanding our training
20 with our Lottery staff, and also with retailers regarding
21 problem-gambling. And we're going to seek the World
22 Lottery Association Level 4 certification for corporate
23 social responsibility, and become the first state in the
24 United States to have that distinction.

25 Another goal is maximizing our return on

1 investment of our advertising and promotions. You've
2 heard from Richard Mahan before, our director of Sales
3 and Marketing, about our *"Every ticket has value"* theme.

4 We are also working hard to expand our online,
5 digital, and social media strategies. We want to use
6 these strategies to attract new players who haven't
7 played our games; and we think our efforts in this thus
8 far are already paying off. We want to expand those.

9 And then we want to provide an efficient and
10 effective marketing support for our new and our existing
11 games.

12 Another major theme is the theme of retailers.
13 As I mentioned, we have to expand our retailer network.
14 You've heard me before talk about the need to add 4,000
15 more retailers just to get up to the national average of
16 penetration with retailers in California.

17 We're basically expending efforts in terms of
18 our traditional retailers, through our key accounts
19 folks, focusing on chains and various C-stores,
20 traditional people who have been big supporters of the
21 Lottery.

22 We're also doing a major effort to get Hot
23 Spot® retailers in that venue, such as bars -- small
24 bars, taverns, bowling alleys, that type of thing; as
25 well as looking at other major channels, potential

1 channels for expanding playership.

2 We also want to optimize our support provided
3 to our Lottery retailers. We have been working on
4 developing the requirements for a new customer
5 relationship management tool, a CRM tool, so we can get
6 better data, and use that data to provide better service
7 to our retailers.

8 We're continuing our efforts to improve our
9 supply-chain management, and the efficiency and
10 effectiveness of that.

11 And we also are working to provide better
12 service to our retailers overall by freeing up our
13 workers to do more work, what we call "high value work"
14 in terms of helping sales, as opposed to just the routine
15 things of dropping off and picking up tickets.

16 And the fourth major theme is the theme of
17 infrastructure. We've been talking about this quite a
18 bit the last 15 months. We have to improve the
19 infrastructure of the Lottery. A lot of the business
20 practices we have are old, they're mundane, and they're
21 like historic in terms of what they do.

22 So basically, what we're trying to do in this
23 area, is really take a look at our internal operations.
24 We're going to be putting in place a retailer risk
25 management effort, looking at how we service a retailer

1 from the time we try to recruit them, to the time we get
2 them, to the time we work with them as a Lottery
3 retailer; and if we need to get them out of the system,
4 how we do that.

5 But that whole life-cycle of a retailer is
6 something we're focusing on because we need to get good
7 retailers, keep the ones we've got, and then attract more
8 retailers. And if there's a few ones we don't want, we
9 have to take actions ahead of time to get them out before
10 they're a risk to the Lottery.

11 We also have a variety of enabling technology
12 projects to basically update various financial processes
13 we have, as well as human resources processes, those
14 types of things. Just basic skill projects that we need
15 in the Lottery.

16 And we're also seeking the World Lottery
17 Association security certification, and try and become
18 the only Lottery in the country that has that security
19 certification from the World Lottery Association.

20 And finally, the tenth major goal is building
21 a one-lottery culture among our staff through additional
22 training, collaboration, and project management. I
23 think, generally speaking, we're just trying to get
24 everyone working together and singing from the same page
25 of the hymnal. We're very happy with the Lottery team we

1 have, and we want to make it even more productive.

2 So those are the key themes and the goals.

3 Like I said, you'll be getting a document from us shortly
4 which elaborates on that. And Jim Hasegawa will be
5 talking about year one of our business plan later in this
6 meeting.

7 Any questions regarding those at all?

8 CHAIR TAGAMI: Commissioners?

9 COMMISSIONER KIRTMAN: No.

10 DIRECTOR O'NEILL: Okay, just briefly, today's
11 agenda, Paula Negrete is going to be providing a
12 legislative update. It's mating season at the Capitol.

13 We also have a summary of the headquarters
14 building project closeout from Terry Murphy.

15 And as I mentioned, Jim Hasegawa is going to
16 talk about our business plan for next year, the framework
17 of it.

18 And then we have a few general business items.

19 CHAIR TAGAMI: Thank you.

20 DIRECTOR O'NEILL: Thank you.

21 CHAIR TAGAMI: Paula?

22 Good morning.

23 MS. NEGRETE: Good morning.

24 Good morning. Chairman, Commissioners.

25 VICE CHAIR SMOLIN: Good morning.

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1 COMMISSIONER KIRTMAN: Good morning.

2 COMMISSIONER AHERN: Good morning.

3 MS. NEGRETE: For today's legislative update,
4 I'd like to focus on some changes within the Legislature,
5 bills that the Lottery is tracking, including an update
6 on the Lottery out-of-state draw bill, SB 817, and a
7 quick scan on U.S. lottery news.

8 During my last legislative update, we discussed
9 the new legislative session and the new faces of both the
10 Assembly and the Senate.

11 Since then, there has been a vacancy in the
12 Assembly District 80, previously held by Senator Ben
13 Hueso, who moved to the Juan Vargas seat after he left
14 for Congress.

15 The Senate has two vacancies, including the
16 Michael Rubio seat, Senate District 16, and the Negrete
17 McLeod seat, Senate District 32, which is scheduled for a
18 May runoff.

19 If Assemblywoman Norma Torres wins in May, the
20 Assembly Democrats will be temporarily short of the
21 54 seats for a supermajority. Moreover, they will lose
22 Assemblyman Bob Blumenfield from Sherman Oaks in July,
23 when he leaves to join the Los Angeles City Council.

24 Democratic leaders say the change will not make
25 a difference in working across the aisle.

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1 The legislative session began with an immediate
2 focus on higher education and its affordability, an
3 extraordinary session to prepare for the implementation
4 of the federal Health Care Reform Law, in an effort to
5 attract more businesses to California for job creation.

6 The new Legislature has produced roughly 2,200
7 bills introduced -- sorry -- introduced this session; and
8 many bills have entered a new policy -- I'm sorry, have
9 entered the policy stage, where the legislation is being
10 analyzed by the committee of origin.

11 We're watching legislation that directly
12 references the California Lottery, the Lottery sponsor
13 legislation, and bills impacting the gambling community.

14 I'm happy to report that the Lottery's
15 out-of-state draw bill, SB 817, which is a Senate
16 Governmental Organizational committee-sponsored bill, was
17 heard in committee on April 23rd on the consent calendar.
18 Passage was approved, and it has been rereferred to the
19 Appropriations Committee. This bill is slated to be
20 taken up in Appropriations in early May.

21 The bill would change the Lottery Act,
22 providing flexibility and staffing out-of-state draws,
23 allowing California staff to remotely witness the
24 out-of-state draws.

25 It puts California on par with other national

1 lotteries' draw procedures, upholds strict inspection
2 standards, and will save the Lottery \$140,000 a year.

3 We don't anticipate a challenge in the passage
4 in the Appropriations Committee, since the bill has a
5 positive fiscal effect, providing -- again, providing a
6 savings of \$140,000 annually to the Lottery.

7 The final hurdle is a two-thirds vote of the
8 full Senate as the bill moves to the Assembly for
9 consideration.

10 Other bills that directly reference the Lottery
11 include Senate Bill 184 and Assembly Bill 1332. SB 184
12 is a bill introduced by the Senate Committee on
13 Governance and Finance that proposes changes to state
14 laws governing local governments' power and duties.

15 Currently, section 12419.8 of the California
16 Government Code allows the Controller to offset and
17 deduct from a claim, including Lottery winnings, if a
18 person or entity owes money to a city or county.

19 Senate Bill 184 expands these provisions to
20 apply to amounts due to special districts, in addition to
21 the amounts due to cities and counties.

22 Assembly Bill 1332, introduced by Assemblyman
23 Hageman, would change the Lottery Act to allow the
24 assignment of the final three annuity prize payments from
25 the Lottery to the prize winner.

1 The Lottery is examining the impact of these
2 bills, and will continue to follow their progress.

3 Other gaming-related bills that we'll continue
4 to watch include Senate Bills 190, 51, and SB 670. We
5 saw similar versions of these in the last legislative
6 session.

7 SB 51 would authorize intrastate Internet
8 gambling by creating a five-year license to operate
9 Internet gambling. It has been assigned to Committee for
10 hearing, but has not been calendared.

11 SB 190 is a bill that authorizes sports
12 wagering.

13 Both bills have been introduced by Senator Rod
14 Wright. The bill is currently -- has recently been heard
15 in the committee on April 23rd and has passed, and was
16 rereferred to the Appropriations Committee.

17 SB 670, introduced by Senator Lou Correa, would
18 authorize Internet poker Web sites in California. The
19 bill would require the California Gambling Control
20 Commission to establish a regulatory framework for the
21 licensing of businesses. The bill has not yet been
22 calendared by the Senate Committee on G.O.

23 Since our last meeting, New Jersey Governor
24 Chris Christie had vetoed the bill to legalize gambling
25 over the Internet. Since then, he has signed an amended

1 version of the bill, which allows any game played in the
2 city's 12 casinos to be played on the Internet,
3 exclusively in New Jersey first, and then -- and other
4 places are willing to partner with the state.

5 Licenses will be limited to Atlantic City
6 casinos and require that companies keep most of the
7 equipment to run the operations on-site.

8 In Delaware -- the State of Delaware is moving
9 forward with its plans to launch online gambling by
10 September 30th of this year. So far, they have received
11 14 proposals from companies seeking to provide online
12 gambling systems.

13 Since my last report, the Governor of Wyoming
14 had signed a bill that allows the state to -- the
15 creation of a lottery. The lottery has also created some
16 excitement in the neighboring state of Utah, which is
17 willing to take that two-hour drive to play lottery and
18 buy tickets.

19 And at a federal level, so far, Senator Reid
20 has not introduced federal legislation authorizing
21 Internet gambling.

22 Questions?

23 CHAIR TAGAMI: So with -- in the last 30 years,
24 I think the average number of bills signed into law was
25 1,200. So that's 36,000 new laws in the last 30 years.

1 So we've become pretty sophisticated as a people. So I
2 just wonder what the unintended consequences of that
3 complexity are.

4 But thanks for the report. That's great.

5 DIRECTOR O'NEILL: Thank you, Paula.

6 CHAIR TAGAMI: Headquarters building.

7 MR. MURPHY: Good morning, Commissioners,
8 Chairman.

9 CHAIR TAGAMI: Good morning.

10 MR. MURPHY: I want to give a brief overview of
11 the headquarters building project that is now completed
12 and closed out.

13 I want to touch bases on a few things.

14 First, talk about the project vision, which is
15 basically the charge I was given when I got here.

16 Second, is integrated project delivery. That
17 was the type of delivery we used for the project.

18 Certainly important was the team that was
19 involved on the project.

20 And finally, what you might be interested in is
21 the results or the successes, as I like to look at them
22 as.

23 Project vision: I came to the Lottery in the
24 fall of 2007, specifically with the goal of ultimately
25 building the building we're in. While the focus was on

1 the new headquarters, the charge was to look at the
2 entire campus; and the planning documents that we
3 developed certainly do that.

4 I was charged to utilize the flexibility that
5 the Lottery has. The Lottery, as you know, is a unique
6 organization. And we do have some flexibility in the
7 way of contracting that doesn't exist in other state
8 agencies, particularly as it related to the building
9 project.

10 Next, was to create a positive working
11 environment. I think most of you missed the old
12 headquarters building.

13 Lucky you.

14 It certainly was not conducive to a very
15 positive working environment for the staff; and the new
16 building, one of the charges was to improve that.

17 Next, Make It Green, certainly always a very
18 positive thing to be environmentally sound; and do,
19 indeed, use the best practices there.

20 Have an inviting public space, again,
21 referencing the old building, there was a very small
22 lobby that had about enough room to sign in at the
23 security desk before you went into the mantrap to come
24 into the building. Certainly, we wanted this building to
25 be more inviting, and to have a lobby that was friendly

1 to visitors, and sort of told the history of the Lottery,
2 wherever possible.

3 And then finally, what is always wanted: Get
4 it done fast and efficiently.

5 I skipped a slide. Sorry.

6 First, talking about the project delivery
7 method used. Why IPD, integrated project delivery?
8 The flexibility, like I said, available to the Lottery
9 provided some delivery methods that aren't available
10 typically to public agencies. And we certainly wanted to
11 take advantage of those, if they would provide a better
12 return for the Lottery.

13 Personally, I had looked at the design/build
14 process. It was a very attractive process that typically
15 isn't used in public works projects, but we were able to
16 use something like that.

17 With the help of Capital Program Management,
18 one of our consultants, we were ultimately led to the
19 integrated project delivery method. And I'll talk a
20 little bit more about that.

21 The collaboration that is used in the
22 construction and ultimately which is the integrated
23 project delivery method, brings together the owner, the
24 designer, the contractors, the suppliers -- everybody.
25 What that meant for the team was a lot of meetings.

1 Every contractor commented on how many meetings
2 we had in the beginning and during the process. Luckily,
3 at the end, they said those were very well-served.

4 We had weekly IPD team meetings, which at times
5 included up to 40 subcontractors, suppliers, things like
6 that, working on the design, working on where we were at
7 in the next week; was everyone's deliverables going to be
8 done on time. Also, doing a six-week look ahead. What
9 are all the major milestones coming up in the sixth week;
10 is everybody on time.

11 During design, the focus was more about the
12 design itself. Certainly, once we were in construction,
13 it was more to do with the on-the-ground items.

14 We also had monthly core-team meetings. Core
15 team was the principals at the Lottery, the contractor
16 and the architect. And then we also had an array of
17 special design meetings, where they were getting into the
18 details of the plumbing and electrical and HVAC and
19 things like that.

20 The next item, the integrated project delivery
21 utilized, and in this case served us very well in the
22 end, was BIM, or "building information modeling."
23 Basically, building the building on the computer in 3D
24 throughout the process.

25 I reference the regular meetings that everyone

1 was having, specifically the design detail meetings,
2 where you would have the steel supplier, the structural
3 designer, the curtain-wall supplier, all in the same
4 meeting, watching how things would go together in live
5 detail, but with electrons, not with steel and glass and
6 things like that.

7 The result of BIM is very little unknowns when
8 you get to construction, very exact fits and things like
9 that, which avoids change orders and things like that,
10 ultimately; and makes the project certainly go smoother.

11 Finally, IPD contingency. As an incentive for
12 the contractor and designer to work together, since they
13 were together through the design process, we developed an
14 integrated project delivery team contingency which would
15 be used for those things that were missed during design
16 or construction, somehow through a gap that we had in the
17 design or construction process.

18 We estimated up-front what would be a
19 reasonable amount to put there, and did so. It helped
20 the project along, and it was the incentive for them.
21 Overall, the entire team agreed that the integrated
22 project delivery method was key to the success of the
23 project.

24 Integrated project delivery is, like I said,
25 collaborative, and it really relies on a good team. We

1 had a good team. And I'd like to go through each of
2 them, if I could.

3 A couple of them are here.

4 First, Capital Program Management, the first
5 consultant we brought on board, helped the Lottery with
6 project management, helped the Lottery with figuring out
7 what the delivery method was going to be, and then helped
8 manage us throughout the process.

9 Wally Browe, the president, is here. He was
10 involved in all that, facilitating our IPD meetings and
11 others, and did a great job.

12 Next would be the architect, LPAS.

13 Curtis Owyang, sitting next to Wally back
14 there.

15 LPAS was key to me because they took the vision
16 that we received at the beginning, worked with us very
17 closely, and translated that into what you see.

18 I feel they did an excellent job at hitting the
19 public space, the work environment, the greenness of the
20 building -- all those things. They just did a great job
21 at it.

22 They were also key in all the meetings that
23 were being held, coordinating all the designers and
24 things like that.

25 Not here, Otto Construction, again, they were

1 here during the design process. Certainly worked closely
2 with the architect to ensure that everything was covered.
3 Brought their subcontractors on board early, when we
4 needed them, so we could coordinate those details, and
5 make sure we didn't have changes in the field when we
6 were in construction.

7 Otto Construction certainly always had the
8 "will do" attitude. And, in fact, for Rusty Phillips,
9 that was -- when I think of him, that's -- I picture him
10 saying that. Because whenever I asked for something,
11 that was the response.

12 EsGil was a company that provided plan review.
13 Again, the Lottery is different. We don't fall under
14 regular city laws, don't get regular permits through the
15 city. We're responsible to take care of that ourselves.

16 EsGil provides that service for other
17 organizations, like CSUs and UCs. And, again, did a
18 great job at working with the team to incrementally do
19 plan reviews that you couldn't typically get through a
20 city process or something else; helped us, you know,
21 expedite the process very well; let the design team keep
22 moving, knowing what the reviews were.

23 Broadspec, they provided inspection of
24 record -- inspector of record and building official.
25 Again, worked closely here every day. Leon McNeil, our

1 inspector on-site, working with the team, attending the
2 team meetings, making sure everyone was clear on:

3 "Here's what I'm going to look for. Here's the rules.
4 Here's how you get there."

5 Scott Patterson, their principal, helped us
6 coordinate with the State Fire Marshal.

7 And then finally CEL, and they were our special
8 inspector in testing, coordinated with Broadspec to get
9 all their work done.

10 Important things. Project results:
11 Originally, we anticipated occupying the building around
12 October 2011. That was in the original RFP. We ended up
13 moving on July 11th, 2011, three months, roughly, ahead
14 of schedule. That schedule was significantly assisted
15 by the IPD process, the lack of conflicts that occurred
16 during construction because of the coordination that
17 occurred during design.

18 The whole project -- and I totaled the six
19 contracts that we had -- you see there \$2.75 million
20 under-budget. And then of that total, only 1 percent
21 were used for change orders that were related to design
22 conflicts, between design and construction.

23 And ultimately, the building is Leadership --
24 LEED Gold, a little plaque out in the lobby by the guard
25 desk, meaning, I mean, basically get it done fast, get it

1 done efficiently, and certainly have it be green.

2 COMMISSIONER AHERN: Can I ask a question?

3 In the 1 percent cost for change orders, what's
4 common for industry standards?

5 MR. MURPHY: I'll look to Chairman Tagami,
6 because he was the one that -- he was the one that kind
7 of smirked when I said that.

8 CHAIR TAGAMI: Over budget, 5 to 7 percent.

9 COMMISSIONER AHERN: There you go.

10 CHAIR TAGAMI: That's good.

11 I think -- thank you -- Sheriff, thank you for
12 the question.

13 The fact that you have members of your team
14 here speaks volumes for the fact that you're still
15 talking with each other, that you want to see each other.
16 After the process that you've been through, that says a
17 lot.

18 MR. MURPHY: They noted the same thing,
19 actually.

20 CHAIR TAGAMI: They had to wonder, you know,
21 "Why are you inviting us to this meeting," right?

22 So the warranty period starts with beneficial
23 occupancy or is it after?

24 But, no, in all seriousness, you should be
25 commended: One, for the effort, the delivery method, and

1 the finished product.

2 The old saying is that the pioneers get the
3 arrows and the settlers get the land.

4 So previous commissioners and administrators
5 took a lot of heat for the project; and we are glad that
6 you did because we're here to enjoy it. And I think it
7 will serve the Lottery for years to come, and clearly,
8 the ability to meet the Lottery's operational need, in a
9 professional and environmentally responsible manner.

10 But ultimately, I think there's going to be a
11 triple bottom line, in that I think there's going to be
12 some operational efficiencies that will serve the Lottery
13 for years to come. And it's the kind of investment in
14 infrastructure that's always difficult to make and
15 undertake.

16 So there's a sure trail of tears. You know,
17 lots of late nights with maybe a little whiskey in a
18 Styrofoam cup.

19 But I thank you; and thank you for the team
20 members that have come and presenting not only the
21 closeout report, but, really, sharing it with your
22 colleagues.

23 I would say this one thing, though, in all
24 seriousness: This is the type of thing and the question
25 is, with public buildings, is that the maintenance -- the

1 first thing that always goes is maintenance; and then the
2 difficulty is then not getting the full life out of a
3 building like this.

4 So I'm sure you have a very comprehensive
5 maintenance program. We've discussed it in the past.

6 MR. MURPHY: Yes.

7 CHAIR TAGAMI: And as we go forward with the
8 strategic planning, it's important to note that nice
9 buildings like this will stay nice if they're properly
10 cared for.

11 MR. MURPHY: Thank you.

12 I did want to touch on something you mentioned
13 there, that is, sort of the annual cost to the Lottery of
14 the building compared to other things that the State's
15 paying for right now in town.

16 We ran all of our '11-12 costs, everything for
17 the building, all in: Depreciation, utilities, all the
18 facility staff time, custodians -- everything. In
19 '11-12, we spent \$1.71 per square foot to own and operate
20 this building, which you're probably familiar, is a
21 pretty good rate these days when most other leases are up
22 around \$2.50.

23 CHAIR TAGAMI: Was that budget number, by the
24 way, inclusive of FF & E? It included the furniture
25 systems?

1 MR. MURPHY: Everything.

2 CHAIR TAGAMI: Everything? That's great.

3 Okay.

4 Any other questions?

5 *(No response.)*

6 CHAIR TAGAMI: Thank you.

7 And thank you for joining us today and coming.

8 We like visitors. We rarely get visitors.

9 Jim?

10 MR. HASEGAWA: I'll get set up here.

11 Good morning, Mr. Chairman, Commissioners.

12 I'll give you an overview, including the

13 highlights for the fiscal 2013-14 business plan.

14 First, starting off with goals, our overall

15 goal for the upcoming fiscal year is to deliver record

16 profits to public education. Our plan will be to

17 surpass -- the plan will be to surpass last year's

18 all-time high of \$1.32 billion.

19 Next year, it will represent the fourteenth

20 consecutive year that the Lottery has provided more than

21 \$1 billion to public schools throughout the state.

22 As you can see, through the historical look at

23 contributions to education over time, we have

24 dramatically grown our proceeds to education. Most

25 recently, you can see the all-time high there in the last

1 year is at \$1.32 billion. And as I said, for '13-14, our
2 goal is to surpass that mark.

3 Now, from the strategic directions that Bob
4 outlined to you earlier this morning, the annual business
5 plan for '13-14 still has the same four themes and the
6 same ten goals.

7 What I'll do is, I'll be discussing the actual
8 initiatives, or the highlights from the tactics that are
9 proposed to be included in the business plan.

10 Starting off in the area of products and
11 continuing in our improvements to our Scratchers®
12 category, you can see by this graph here that our \$5 and
13 \$10 games -- they are the bars in red and black -- have
14 now become our most popular price points, and really have
15 driven the sales growth of Scratchers®, have come from
16 these higher price point games.

17 And to meet the player demand, we'll be
18 increasing the variety and type of these games in that
19 price point, and also increasing the number of facings
20 that retailers will sell of these price points.

21 As Bob mentioned, we plan to launch a \$20 game.
22 To give you some background, this really does follow best
23 industry practices. Currently, there are just four
24 Lottery jurisdictions in the U.S. that do not offer a
25 \$20 game. And we happen to be one of them. The other

1 states, as you can see, are smaller states and all.

2 Now, we analyze from large, very similar states
3 as California, we analyze their sales when a \$20 product
4 was launched into the category. And we saw that after
5 about a six-month period, total category sales for all
6 instant tickets increased, on average, about 12 percent.

7 We estimate that the incremental sales for
8 California, even for a partial year next year, would be
9 about \$175 million in net incremental sales for
10 Scratchers®.

11 Now, I also want to point out that this
12 product, during the current fiscal year, has gone through
13 extensive consumer research to test the potential appeal,
14 and what type of sales level we would experience here.
15 The consumer research also showed a very similar lift in
16 category sales, as we've seen in the industry. And we
17 also tested a variety of concepts, to determine which
18 concept would yield the greatest sales.

19 Now, in terms of our draw game portfolio, in
20 light of the recent changes to POWERBALL®, both by having
21 us join the game, but also you have to remember that
22 POWERBALL® modified its game in early 2012 to a \$2 price
23 point. And that had an impact on MEGA Millions®.

24 Florida will begin selling the MEGA Millions®
25 product in May. And as such, it is kind of due that MEGA

1 Millions® is in need for some refinement. And we do
2 anticipate that during the upcoming fiscal year, there
3 will be some game changes that will be needed that
4 California will have to adopt, because we've been working
5 with the consortium of the other states.

6 CHAIR TAGAMI: Jim, remind us how many states
7 are in MEGA Millions®.

8 MR. HASEGAWA: It's all. All 43 of them.

9 CHAIR TAGAMI: 43?

10 MR. HASEGAWA: Yes. Once Florida joins, every
11 state that has a lottery will be part of the MEGA
12 Millions® game.

13 Similarly, SuperLotto Plus® has had sales
14 declines going back as far as 2005; and as such, we need
15 to address those.

16 Now, even though sales of this product has
17 declined, we want to point out that SuperLotto Plus® is
18 still the fourth strongest in-state lotto game on a per
19 capita basis. So it's not something that we just want
20 to, you know, either get rid of or throw away. We want
21 to use the equity in the SuperLotto Plus® product, but
22 improve it to reverse the decline in sales.

23 There is definitely it shows evidence that we
24 can actually grow sales in SuperLotto Plus®. The player
25 base and attitudes for the game are still strong. But

1 what we have to do is understand a player's perception
2 about the game, why they don't play as often in the game.
3 We have to test enhancements, and then possibly implement
4 these changes, probably sometime towards the end of next
5 fiscal year.

6 Now, to continue to grow sales in the more
7 profitable category of draw games, we have to have a
8 concerted effort, kind of in research and development, so
9 that there is a pipeline of potential new games, or game
10 modifications that the Lottery can consider.

11 So we will be conducting a number of projects
12 to better understand what our consumers are seeking when
13 they play draw games, and then design and develop new
14 game ideas which will be subsequently tested. And that
15 will be kind of the R & D effort, so we will have, like,
16 a line-up of potential games for future years.

17 In the area of players: To meet the long-term
18 goal of growing the player base in California for the
19 Lottery, there are several programs that have to be
20 addressed.

21 Well, there are currently about 13 million
22 Lottery players in California, out of the adults in
23 California, because approximately nearly half of all
24 adults play the Lottery at any time during the given
25 year. To grow that number, we first want to ensure that

1 we retain those existing players; and then we begin to
2 re-attract Californians who used to play the Lottery but
3 haven't done so recently.

4 I'm going to give you one example of that, and
5 that's in the area of player loyalty. Our current Replay
6 program will have some enhancements added in the first
7 quarter of next fiscal year. This will improve the
8 experience of our current users, allow us to handle
9 greater volumes of activity, as well as extend this
10 Second Chance program to our SuperLotto Plus® game. This
11 will be one of the additions to SuperLotto Plus®, to help
12 reverse the sales decline. But we are looking at more
13 than just adding second-chance of SuperLotto Plus® to
14 enhance the game.

15 CHAIR TAGAMI: Jim, we had chatted in the past
16 about the Second Chance programs and cross-marketing with
17 other manufacturers or retailers and other promotionals.

18 Where does that stand right now? Because I
19 understand what you've presented to us in the past. But
20 is that the Lottery literally aggressively communicating
21 with airlines and hotels and other types of opportunities
22 for, you know, winning those types of, I'll call them,
23 non-monetary prizes?

24 MR. HASEGAWA: I think what -- I don't know if
25 we have had all the discussions, but we first had to

1 understand what the system would be capable to do,
2 because you don't want to go and have discussions with
3 companies, and not be able to kind of fulfill what you
4 promise.

5 So now that the requirements are all set and
6 that system is being built, we really do have an
7 understanding to allow Marketing to actually go out and
8 have those negotiations.

9 CHAIR TAGAMI: Right.

10 MR. HASEGAWA: So that's just in the process
11 now.

12 CHAIR TAGAMI: Okay, so, I mean, you look at --
13 I think they say, one of the most prolific monetary units
14 in the world is actually frequent-flyer miles --

15 MR. HASEGAWA: Air miles. Yes.

16 CHAIR TAGAMI: -- on airlines.

17 They said, if everyone cashed them in, it could
18 affect the world economy.

19 But ultimately, you look at that and say, you
20 know, is that a book of choices? Is it points that
21 people earn? And then how do you then draw in those
22 relationships and the like? And then how does that drive
23 more traffic and more people wanting to come through the
24 Lottery, because they see the opportunity to take
25 advantage of that?

1 MR. HASEGAWA: Right. And we're also looking,
2 from the flip side, as to what -- I guess tie-in partners
3 would be most advantageous from our vantage point, and
4 would our players really get motivated, too. And that's
5 what we were looking at and trying to understand from our
6 players, what would motivate them. And those would be,
7 like, the first companies that Sales and Marketing would
8 try and tie in with.

9 CHAIR TAGAMI: Okay.

10 MR. HASEGAWA: As a natural extension from
11 Replay is a player rewards program. And that's because,
12 much like other companies that you described, their
13 loyalty programs, it is, players would accumulate points
14 and be able to use those points if something -- for some
15 value. And it really adds additional value to our
16 products and encourages continuity of play.

17 The player rewards program is currently in the
18 procurement process. That's why I don't have a lot of
19 details, because we don't know which vendor and what
20 services will be available. But that's the ultimate
21 goal, is to begin development of the player rewards
22 program, which really enhances on what we've been doing
23 with Replay.

24 Okay, to be able to increase the number of
25 players, we really have to address some perceptions that

1 some Californians hold that really act as a barrier to
2 play.

3 Right now, we find that about one-third of
4 Californians hold, you know, not positive nor negative.
5 They're kind of in between. They have the whole neutral
6 attitudes or opinions about the Lottery.

7 So ultimately, an individual's perception about
8 any company, right, or any brand really influences
9 whether they participate with that brand or not. So we
10 need to move some of these people that are in the neutral
11 position into being positive about the Lottery. And that
12 will grow our playership.

13 And that's what a lot of efforts will be
14 happening in this first year of the three-year plan, is
15 we've got to reduce those barriers, develop a more
16 positive image with these Californians who just hold a
17 neutral attitude towards us.

18 Most critical in that area is communicating how
19 Lottery sales benefit the public. You know, many people
20 don't even know that the Lottery profits go to education,
21 let alone what those profits do. So, really,
22 communicating that, not just where the money goes, but in
23 a tangible way.

24 So as a whole message strategy of how do we
25 communicate in a tangible way, how the public benefits

1 from the Lottery profits is being worked on right now.

2 Other areas that need to be addressed is that
3 people often say that they don't know anyone or hear
4 about people who have won. And this is in particular
5 reference to, like, at your local retailer or in your
6 local community. So right now, the development of
7 winner awareness programs that really efficiently and
8 effectively deliver that message; but not just on a
9 statewide basis. People want to know who has won at
10 their store -- at the store that they shop at or in their
11 local city. And that's what's being worked on at this
12 point. And that will be -- once the process has been
13 developed, we will be able to know exactly when that will
14 be deployed.

15 Advertising support. Obviously, advertising
16 efforts are critical and increasing our player base. To
17 retain our existing players, we'll continue to support
18 our Scratchers® product and our big jackpots through
19 MEGA Millions® and POWERBALL®. And it's done through our
20 most efficient media vehicles.

21 We do have a media analytics model.
22 Essentially, it's an econometrics model that allows us to
23 understand which media vehicles deliver the best return
24 on investment for the advertising dollar.

25 And we use that model to fine-tune the media

1 plan, to use the media vehicles that deliver the most
2 productive -- that give the most productive results,
3 excuse me.

4 For next year, because POWERBALL® is recently
5 introduced, we need to do additional advertising support
6 against the brand. We want to make sure that it's a
7 strong and unique image that Californians have of
8 POWERBALL® to maintain the current strong sales of that
9 game.

10 In addition, as Bob mentioned, we'll be
11 increasing media dollars to digital advertising, like
12 Website advertising, mobile phone advertising. And
13 that's based on econometric model results. We have found
14 that those deliver really good return on investments. So
15 the advertising agencies will be increasing their buys in
16 that area.

17 And as I said before, we're really trying to
18 develop that overarching message for the Lottery, as
19 Richard has talked about, that every ticket has value:
20 There's the fun of playing the games. The chance of
21 winning -- a second chance at winning through programs
22 like Replay and Rewards; and how the purchase of a
23 Lottery ticket has a positive impact on the local
24 community, both in terms of the public schools and the
25 local businesses that it ultimately supports. And

1 somehow getting that type of message into a marketing
2 communication is going to be worked on during the year as
3 well.

4 With more products, more promotions, a greater
5 variety of games, and the goal of higher Lottery sales,
6 there is a corresponding need to increase our efforts on
7 promoting responsible gaming. This includes training
8 both Lottery retailers, but also all staff here at the
9 Lottery.

10 Importantly, really, additional programs
11 internally will be developed so that responsible gaming
12 is really part of our everyday operations; that it is one
13 of the considerations that we have when we are making
14 business decisions.

15 And as Bob mentioned, we will be then seeking
16 World Lottery Association level for certification, and we
17 will become the only state in the nation to achieve this
18 high of a level.

19 In terms of retailers, for the upcoming fiscal
20 year, while the overall goal is 4,000 or so additional
21 retailers, for next year, it looks like we will be having
22 a goal of about 1,200 retailers for -- that will be
23 selling our traditional products, and about 450 social
24 venue retailers, that are specifically aimed at selling
25 Hot Spot®.

1 So it's not just the numbers; it's really the
2 types of retail locations. So in addition to the
3 traditional types of locations that we sell at, we need
4 social venues for Hot Spot®, we need to possibly change
5 the business model.

6 We have had a pilot with CVS that's been very
7 successful, and trying to expand that model. Because
8 some other major corporations, major chains might not
9 want to sell tickets in the same way that a local liquor
10 store or grocery store does. So we have to look at
11 different business models to be able to attract different
12 types of retailers.

13 Or we might need to find new ways of selling
14 tickets in traditional retailers through the use of
15 technology. And there are some programs that the Lottery
16 is looking at there that some other states in the U.S.
17 are currently testing.

18 As we grow the network, we really need to make
19 sure that we can efficiently handle our current
20 locations. So we have a number of programs designed to
21 optimize the support provided to our retailer network.
22 Bob talked a lot about the effective supply chain. We
23 need to be able to efficiently get ticket inventory to
24 our retailers.

25 The complete roll-out of a new ticket return

1 process will be completed early in next fiscal year; and
2 there are other enhancements planned throughout the year
3 to essentially try and fine-tune that supply chain, of
4 getting it from when we receive tickets from our vendors,
5 ticket vendors, all the way to a game has ended, and we
6 are getting rid of that game and picking up the tickets
7 from retailers. That whole supply chain really has to
8 become as efficient as possible. We don't want to waste
9 particularly DSR staff time in that supply chain.

10 Retailer risk management. This program will
11 monitor and manage the financial risk over the entire
12 life cycle of a retailer. If you think about it, on
13 average, the average retailer handles about \$4,000 a week
14 in cash transactions on behalf of the Lottery. You
15 multiply that by 20,000 retailers, and that's a lot of
16 cash that is exchanging hands. And as such, we do -- we
17 are open to potential and vulnerable to various financial
18 risks.

19 So this program will be looking at it through
20 who we recruit and how we service the retailers ongoing
21 that, to maintain that we maintain, but to ensure that we
22 don't subject ourselves to inordinate amounts of
23 financial risk.

24 This would also help minimize the loss of
25 existing locations. Many of our locations either go out

1 of business or we terminate them for financial reasons.
2 And that's why, in some cases, it's hard to increase the
3 number of Lottery retailers, because we are losing a
4 certain number of them, even though we are recruiting
5 many new accounts.

6 A number of areas deal with the kind of
7 optimizing the sales call and the frequency of visitation
8 of our retail locations. To do that, we'll need -- we
9 are developing a checklist for each call based on their
10 sales volume. Certain retailers may not be visited as
11 frequently based on their sales volume or their potential
12 to increase sales.

13 To be able to have an effective sales call, we
14 need to develop a new customer relationship management
15 tool, a CRM tool.

16 And also as part of this effort, there will be
17 a formation of the route sales unit. I talked about the
18 CVS stores. We have expanded the number of CVS locations
19 that will be operating under the new business model. And
20 that's where the Lottery staff actually go in and manage
21 the inventory, not the retailer.

22 CHAIR TAGAMI: Jim, can you expand on your
23 customer relationship management tool?

24 Are you saying, you're using software? Or is
25 that --

1 MR. HASEGAWA: More than just -- it's hardware
2 and software, yes.

3 CHAIR TAGAMI: Okay, so give us more.

4 MR. HASEGAWA: Okay.

5 CHAIR TAGAMI: It's jargon. So just, you know,
6 break it down for us.

7 MR. HASEGAWA: Right. So right now, the system
8 that currently a DSR takes to a retailer was developed
9 probably in the nineteen-nineties.

10 CHAIR TAGAMI: Okay.

11 MR. HASEGAWA: It doesn't have all the sales
12 information that our current business intelligence,
13 business analytic system can offer.

14 CHAIR TAGAMI: Right. So you're saying it's a
15 hand-held? It's a laptop?

16 MR. HASEGAWA: I believe it's going to be a
17 tablet.

18 CHAIR TAGAMI: It's a tablet?

19 So what was being used?

20 MR. HASEGAWA: Currently, it's a laptop.

21 CHAIR TAGAMI: Okay.

22 MR. HASEGAWA: And then now it will be down to
23 a tablet. So you can take it into the location.

24 CHAIR TAGAMI: Okay.

25 MR. HASEGAWA: But right now, even if they take

1 their laptop into the location, it doesn't have all of
2 the elements of sales information for that account, it
3 doesn't have the most recent checklist of what needs to
4 be occurring in that location, the inventory issues that
5 have occurred at that location. And that's what the CRM
6 tool will be designed to do.

7 Comparative sales to other similar types of
8 retailers in that same geographic area.

9 CHAIR TAGAMI: Thank you for the explanation.
10 Thank you.

11 MR. HASEGAWA: As part of that also in this
12 area, is the formation of the route sales unit. So
13 that's because right now, they are currently managed and
14 supervised under the same district offices. And yet
15 their functions are very different because they actually
16 manage the inventory for that retail location and do the
17 merchandising for a lower fee to the retailer. And
18 that's why that is going to be separated out in terms of
19 organizational structure.

20 And then in terms of optimizing support, we
21 have to look how to service these lower-volume accounts.
22 A DSR will not be visiting them at the same visitation
23 schedule. So some monthly new information, the product
24 information that will be sent with the ticket deliveries
25 to those retailers, rather than being delivered by our

1 DSRs.

2 We'll be expanding the Scratchers® inventory
3 management center. So that way, a retailer would have an
4 individual to perhaps call to, at least, if they need
5 some service.

6 And also, we need to try and drive retailers
7 to use a Web site, or online technology we can provide
8 through a secure account, the ability for a retailer to
9 see videos, training videos to see their particular sales
10 numbers, in comparison to other retailers; but do that
11 not through a sales call, but by them going onto the
12 Web site.

13 So we would really have to develop new
14 functionality and greatly enhance our current retailer
15 Web site to do that.

16 And so that will be -- the first-year effort
17 is really just to determine, what is that new
18 functionality to put into the retailer Web site? And
19 then in subsequent years, it will be the actual
20 implementation of this more enhanced Web site.

21 Another area in talking about support is
22 developing a menu of retailer promotions, rather than
23 having statewide promotions running all at the same --
24 running at a specific time, as a DSR can determine that a
25 retailer needs a specific promotion at a specific time.

1 An example of a merchandising effort that we're
2 also going to be doing, is increasing the visibility of
3 our Scratchers® games. Right now, with in-counters, many
4 retailers sell it this way: The arrow is pointing where
5 the tickets reside. And really, you can't tell that
6 there are Scratchers® being sold until you literally are
7 at the counter. So while you're in line, you can't see
8 the Scratchers® tickets.

9 We're going to be looking at ways to incent
10 retailers to place the tickets on the counter, so they're
11 visible for all the patrons to see while they're shopping
12 in the store. And that's in the works for this coming
13 fiscal year.

14 In terms for infrastructure, Enterprise
15 Resource Planning, an ERP system. Right now, we have a
16 lot of manual processes through that effort, so that
17 means that we don't have timely management information to
18 help us plan our resources, both from a monetary, as well
19 as a staff resource aspect.

20 What will happen is that currently the Epicore
21 System was undergoing an upgrade; and that will be
22 completed early in next fiscal year. After some time to
23 kind of absorb that new functionality, we will begin to
24 start the ERP feasibility study this coming fiscal year.
25 And in the interim, there will be some steps used to

1 automate functions, maybe in the HR area, as well as
2 travel-expense claims.

3 We'll be completing the enhancements to the
4 contact center, to allow greater access for the public to
5 reach us. And we are developing a plan to replace legacy
6 systems in the I.T. area that are using big mainframe
7 computers that have not been updated for many, many
8 years. So we need to replace those systems.

9 CHAIR TAGAMI: When you say "legacy systems,"
10 that's the name or --

11 MR. HASEGAWA: The type.

12 CHAIR TAGAMI: -- because it's been here so
13 long?

14 MR. HASEGAWA: It's like the background
15 investigation system --

16 CHAIR TAGAMI: Okay.

17 MR. HASEGAWA: -- that's been around since the
18 nineties, and is using -- on mainframe computer systems,
19 as well as the annuity investment system.

20 CHAIR TAGAMI: Right.

21 MR. HASEGAWA: Those two systems are using very
22 outdated technology to support.

23 We're also assessing how we can comply with the
24 World Lottery Association security control standards,
25 with the ultimate goal of being the first in the U.S. to

1 gain certification.

2 As Bob talked about, really trying to instill
3 collaboration as part of the Lottery culture, through
4 cross-training of staff, through developing Enterprise
5 project portfolio management software. Really, trying
6 to break down the silos, the way the Lottery has grown
7 up. It's really been organizationally within its own
8 divisional silos. And now, to kind of think more
9 cross-functionally throughout the Lottery, so that people
10 understand the dependencies that other divisions' work
11 has on their own projects.

12 Also, an enterprise-wide risk management
13 program will be developed, and an I.T. strategic plan,
14 followed by a facilities master plan. All of those are
15 kind of developing long-term visions and a shared vision
16 throughout the Lottery.

17 Just, you know, these were the highlights --
18 just kind of some brief highlights to present at this
19 point. The actual business plan will be on the agenda at
20 the May Commission meeting, along with the 2013-2016
21 strategic directions for further discussion and for a
22 vote of the Commission.

23 Also, at the May meeting, an overview of the
24 fiscal year 2013-14 budget will be presented.

25 And then the budget will be actually on the

1 agenda for further discussion and a vote at the
2 June Commission meeting.

3 CHAIR TAGAMI: Jim, thank you.

4 Jim, could you go back to that last slide,
5 please?

6 MR. HASEGAWA: Sure.

7 CHAIR TAGAMI: And just, for commissioners, as
8 we go later in the meeting and discuss kind of our
9 schedule and planning, we'll be entertaining -- and I'm
10 sure will be open for discussion about if we want to have
11 some time set in the agenda for the May meeting for any
12 more detailed or specific requests or discussion
13 regarding some of the strategic initiatives before we
14 then roll into the budget session, so we can make sure
15 that we have alignment and agreement, basically, on the
16 overall direction.

17 So thanks, Jim.

18 MR. HASEGAWA: Uh-huh.

19 CHAIR TAGAMI: With that, I think we'll roll
20 into our consent items.

21 Does someone want to describe the items before
22 we take them?

23 DIRECTOR O'NEILL: I'll go ahead, Commissioner.

24 There are two items on the consent calendar:

25 Adoption of a Scratchers® core game profile

1 templates, the basic templates we use regarding our
2 games. This is for the \$20 game. We need these
3 templates adopted.

4 And also we're amending our UPS contract to
5 basically include the changes we have made based upon our
6 supply change project, to allow us to use the UPS
7 contract to send back tickets which were formerly
8 hand-carried by our DSRs.

9 CHAIR TAGAMI: Any questions?

10 *(No response)*

11 CHAIR TAGAMI: Call the roll, please.

12 Or could we have a motion?

13 VICE CHAIR SMOLIN: I'll make a motion.

14 COMMISSIONER AHERN: Second.

15 MS. TOPETE: Commissioner Smolin?

16 VICE CHAIR SMOLIN: Yes.

17 MS. TOPETE: Commissioner Kirtman?

18 COMMISSIONER KIRTMAN: Yes.

19 MS. TOPETE: Commissioner Ahern?

20 COMMISSIONER AHERN: Yes.

21 MS. TOPETE: Chair Tagami?

22 CHAIR TAGAMI: Yes.

23 Okay, action items.

24 Leticia?

25 Good morning.

California State Lottery Commission Meeting – April 25, 2013

1 MS. SALDIVAR: Good morning, Chairman,
2 Commissioners.

3 COMMISSIONER AHERN: Good morning.

4 VICE CHAIR SMOLIN: Good morning.

5 COMMISSIONER KIRTMAN: Good morning.

6 MS. SALDIVAR: I'm here to discuss the
7 amendment to extend the term of the Asian Advertising
8 services contract.

9 So the issue before us is: Should the
10 California Lottery Commission approve a 24-month
11 extension with Time Advertising to continue to provide
12 Asian Advertising services for the California Lottery?

13 Staff recommends the Commission approve a
14 24-month extension option, and increase the Time contract
15 expenditure authority by \$4.6 million, bringing the total
16 contract expenditure authority to \$13.1 million.

17 Some background: As a result of a formal
18 solicitation in 2009, the Commission awarded Time a
19 three-year contract with four one-year extension options,
20 and a contract expenditure authority of \$6 million.

21 Of the finalists in the 2009 procurement, Time
22 was the only bidder to receive a "significantly exceeds"
23 overall rating, and provided the most competitive pricing
24 and lowest markup rates.

25 In April 2012, the Commission approved a

1 14-month extension, and increased the contract
2 expenditure authority by \$2.5 million. Time Advertising
3 provides Asian Advertising services and materials in
4 Chinese, Vietnamese, and Korean, as well as placement of
5 the media.

6 Extending this contract will allow Lottery
7 staff time to develop and coordinate the procurement
8 process for multiple RFPs for other expiring marketing
9 contracts.

10 Also, with this extension, Time has agreed to
11 lower the mark-up on production billings from 8 percent
12 to 7 and a half percent.

13 With your approval of the 24-month extension
14 option, the new contract expiration date for Time will be
15 November 7th, 2015, with a total contract expenditure
16 authority of \$13.1 million.

17 This concludes my presentation. And I'd be
18 happy to answer any questions.

19 CHAIR TAGAMI: The only request I have -- and
20 my colleagues might have questions -- do we have any
21 cancellation for convenience?

22 MS. SALDIVAR: We do.

23 CHAIR TAGAMI: Okay, thank you.

24 With that, any comments or questions?

25 *(No response)*

California State Lottery Commission Meeting – April 25, 2013

1 CHAIR TAGAMI: Or I'll entertain a motion.

2 COMMISSIONER KIRTMAN: A motion to approve the
3 extension.

4 VICE CHAIR SMOLIN: Second.

5 CHAIR TAGAMI: Call the roll, please.

6 MS. TOPETE: Commissioner Smolin?

7 VICE CHAIR SMOLIN: Yes.

8 MS. TOPETE: Commissioner Kirtman?

9 COMMISSIONER KIRTMAN: Yes.

10 MS. TOPETE: Commissioner Ahern?

11 COMMISSIONER AHERN: Yes.

12 MS. TOPETE: Chair Tagami?

13 CHAIR TAGAMI: Yes.

14 MS. SALDIVAR: Thank you.

15 CHAIR TAGAMI: Thank you.

16 Ms. Watson?

17 Good morning.

18 MS. WATSON: Good morning, Commissioners,
19 Director O'Neill.

20 This is for approval -- the Commission's
21 approval of a sales training contract.

22 Should the California State Lottery Commission
23 approve the award of a contract for sales training
24 program to HKC, Incorporated?

25 Staff recommends that the Commission approve

1 the award of a two-year contract to HKC, Incorporated,
2 for a sales training program. The total expenditure
3 authority for the contract is \$265,700.

4 The Lottery does not have a structured
5 professional sales training program. The goal is to
6 train all staff with this contract, and then have the
7 ability to train existing -- new hires when they come on
8 board with the Lottery.

9 The training that's provided for staff
10 currently is done by different district offices; and the
11 concern is that this training is not consistent across
12 the state.

13 What we did was, although we don't have to go
14 through a competitive bidding process, we invited five
15 vendors to give us their proposals. And out of those
16 proposals, we selected three to come on-site and discuss
17 their training programs.

18 We ultimately decided on HKC. Although they
19 have the highest costs for their services, they were the
20 only vendor willing to license their training materials
21 to the Lottery so that we can continue that training in
22 the future.

23 HKC also has extensive Lottery industry
24 experience. So for this reason, we are recommending that
25 HKC be approved to conduct this training.

1 I'm happy to answer any questions you may have.
2 CHAIR TAGAMI: Thank you very much.
3 Commissioners?
4 VICE CHAIR SMOLIN: Lisa, what's your
5 anticipation of what's going to happen after two years,
6 when this contract expires?
7 MS. WATSON: With the goal of having the
8 Lottery use these licensed training materials, we would
9 carry on that training ourselves. So the plan is to
10 train our own in-house trainers, so that as new staff
11 come on board, we can continue with a consistent program.
12 VICE CHAIR SMOLIN: Who would be an in-house
13 trainer? Is that a position that already -- I mean, are
14 we going to utilize existing resources?
15 MS. WATSON: Yes, existing resources.
16 VICE CHAIR SMOLIN: At each district office?
17 MS. WATSON: Each district office.
18 What we can do is, we're going to select
19 trainers that are available to travel to the district
20 offices and provide this training.
21 VICE CHAIR SMOLIN: Oh, wait. You are going to
22 have a traveling staff? A group of traveling trainers?
23 MS. WATSON: Yes, what it would be is, since we
24 have nine district offices, the plan would be to identify
25 trainers that can pretty much provide the training within

1 a group of geographical locations.

2 VICE CHAIR SMOLIN: Right.

3 MS. WATSON: We also have an in-house trainer
4 in human resources that's been assigned to be a
5 facilitator in the future as well.

6 VICE CHAIR SMOLIN: And who would you
7 anticipate being the trainers in the future? What
8 positions?

9 MS. WATSON: These would be staff that
10 currently do this type of work, because they have the
11 knowledge and background in sales. So we want to build
12 on that knowledge and have them also carry on this
13 program.

14 So it would be staff in-house that already have
15 the background and experience in sales.

16 VICE CHAIR SMOLIN: And in the next two years,
17 HKC is going to train who? Everyone or just trainers or
18 new hires? Or what's the --

19 MS. WATSON: First, they would train all of the
20 staff, all of the sales staff.

21 VICE CHAIR SMOLIN: All existing?

22 MS. WATSON: Over 200 staff. And then within
23 that two years, they would also train those selected
24 trainers, so that the ongoing training will continue as
25 we hire new staff.

California State Lottery Commission Meeting – April 25, 2013

1 VICE CHAIR SMOLIN: Okay.

2 CHAIR TAGAMI: Entertain a motion?

3 VICE CHAIR SMOLIN: I'll make a motion to

4 approve.

5 COMMISSIONER KIRTMAN: Second.

6 CHAIR TAGAMI: Call the roll, please.

7 MS. TOPETE: Commissioner Smolin?

8 VICE CHAIR SMOLIN: Yes.

9 MS. TOPETE: Commissioner Kirtman?

10 COMMISSIONER KIRTMAN: Yes.

11 MS. TOPETE: Commissioner Ahern?

12 COMMISSIONER AHERN: Yes.

13 MS. TOPETE: Chairman Tagami?

14 CHAIR TAGAMI: Yes.

15 Thanks, Lisa.

16 MS. WATSON: Thanks.

17 CHAIR TAGAMI: Nicole?

18 MS. SOLURI: Actually, it's Amy.

19 VICE CHAIR SMOLIN: One more.

20 CHAIR TAGAMI: Oh, Amy.

21 Oh, I'm sorry, one more. I'm jumping ahead.

22 I'm so eager to get to it.

23 Amy?

24 MS. TONG: Good morning, Chairman and

25 Commissioners.

1 COMMISSIONER AHERN: Good morning.

2 MS. TONG: The issue being presented is:
3 Should the California Lottery Commission approve a
4 contract extension with SolutionSet to continue to
5 provide hosting and maintenance service for the public
6 Web site.

7 Staff recommends the Commission to approve such
8 contract amendment, which is to utilize a current option
9 being offered as the existing contract, to utilize one of
10 the four one-year extension options.

11 This extension would add \$2.5 million cost to
12 the existing \$8 million for a contract that existed since
13 2010.

14 With this addition, several improvements have
15 been made, such as the lowered hourly rate that has been
16 negotiated from the current rate. And it's an average of
17 15 to 20 percent reduction on the hourly rate, as well as
18 changing the paying option from a time-and-materials, to
19 a delivery-based, which offers the Lottery a much better
20 option in managing the scope and expenditure on a monthly
21 basis.

22 So with those improvements, I'd be happy to
23 answer any questions.

24 CHAIR TAGAMI: Commissioners, questions?

25 *(No response)*

California State Lottery Commission Meeting – April 25, 2013

1 CHAIR TAGAMI: Entertain a motion?

2 COMMISSIONER AHERN: I'll make a motion.

3 VICE CHAIR SMOLIN: Second.

4 CHAIR TAGAMI: Call the roll, please.

5 MS. TOPETE: Commissioner Smolin?

6 VICE CHAIR SMOLIN: Yes.

7 MS. TOPETE: Commissioner Kirtman?

8 COMMISSIONER KIRTMAN: Yes.

9 MS. TOPETE: Commissioner Ahern?

10 COMMISSIONER AHERN: Yes.

11 MS. TOPETE: Chairman Tagami?

12 CHAIR TAGAMI: Yes.

13 MS. TONG: Thank you.

14 CHAIR TAGAMI: Nicole?

15 MS. SOLURI: Good morning, Commissioners.

16 VICE CHAIR SMOLIN: Good morning.

17 COMMISSIONER AHERN: Good morning.

18 MS. SOLURI: Today, the Commission is being
19 asked to approve the amended Lottery regulations. And
20 staff recommends that the Commission adopt the amended
21 regulations.

22 Commissioners, as you recall -- here we go --
23 the Lottery Commission requested that staff undertake a
24 comprehensive review and revision of our regulations, to
25 make sure that our regulations are consistent with

1 current law and actual practice.

2 I just want to briefly run the Commission
3 through our process. As you know, we conducted an
4 extensive internal review and discussion about the
5 regulations across Lottery divisions. In addition, we
6 posted the draft regulations to our public Web site.

7 We circulated an e-newsletter notification to
8 approximately 3,000 Lottery stakeholders, informing them
9 of our Lottery regulation update, and also provided them
10 with information about where they could submit feedback
11 to.

12 I provided the Commission members with updates
13 at each of our commission meetings in the fall and
14 earlier in 2013.

15 As I just mentioned, we had a dedicated e-mail
16 address where members of the public and stakeholders
17 could submit their feedback. That was
18 regulations@calottery.com. And that e-mail address was
19 monitored daily, and feedback was taken into
20 consideration and shared with the Commission and members
21 of the public at meetings as well.

22 Finally, we convened meetings of our Retailer
23 Advisory Board, where the director and our deputy
24 director of External Affairs and other Lottery staff
25 members communicated with representatives of our retail

1 network, to let them know about changes -- proposed
2 changes to the Lottery regulations that impacted them.

3 I'd also like to briefly run through key
4 revisions to the draft which, as you know, has been
5 included in your commission materials, and is available
6 for members of the public attending the meeting today.

7 In terms of definitions contained in our draft
8 regulations, we eliminated unnecessary definitions and
9 updated others. And we recognize that there were certain
10 definitions that were never included in our regulations,
11 such as "winner." And we decided to define those terms,
12 which will be very helpful to Lottery staff in
13 implementation going forward.

14 We reorganized and clarified regulations. We
15 renumbered our regulations for ease of use and citation,
16 we eliminated redundancies, and we refined and clarified
17 language.

18 We included some new provisions in our
19 regulations. With respect to the third-party submission
20 of ideas, we included in the regulations for approval
21 today a provision to address our current protocol
22 regarding the submission of ideas, which is currently set
23 forth on our public Web site.

24 We provided guidelines regarding Lottery
25 sponsorships, to be sure that the cost of the sponsorship

1 is commensurate with the value received by the Lottery.

2 In terms of our strategic marketing
3 partnerships, in recognizing that these types of
4 partnerships are not amenable to our general competitive
5 bidding strategies, we added language to allow for direct
6 negotiation where appropriate.

7 And with respect to subscription sales, we
8 addressed the Lottery's existing authority for
9 subscription sales of Lottery products.

10 We also made some modifications to our
11 game-specific regulations. We modified provisions where
12 appropriate, to reflect the flexibility afforded by
13 AB 142. We also updated and reorganized our game
14 descriptions for consistency, and we included our *Second*
15 *Chance* program which, as we all know, has become a very
16 popular Lottery game feature.

17 We updated our validation and authentication
18 procedures in the regulations to reflect actual practice
19 and provide greater clarity in the claiming process.

20 Among other things, we added clarifying
21 language addressing the prohibition on the assignment of
22 prizes, regardless of intent or circumstance, except as
23 expressly provided by statute.

24 We noted that our players are responsible for
25 abandoned, lost, stolen, or destroyed tickets. We

1 included clear legal presumptions around ticket
2 ownership. And we updated our ticket lists claim
3 approval authority and the associated provisions, to make
4 sure we were minimizing risk to the Lottery.

5 With respect to our retailer regulations, we
6 have added provisions relating to the reimbursement of
7 retailers for the loss of Lottery tickets and other
8 Lottery equipment or products.

9 We have also clarified our policy relating to
10 prize-cashing requirements.

11 We have also updated our procurement
12 regulations, to tighten up our exceptions to our
13 competitive bidding exceptions. We have also clarified
14 our prime contractor's requirements when they are using
15 subcontractors. We've updated our disabled Veterans
16 regulations to reflect recent statutory changes. And
17 we've revised criteria for the submission of contracts
18 and contract amendments to the Commission.

19 In addition, we have also added a new section
20 of our regulations, which is the Code of Conduct
21 applicable to Commission members and members of our
22 senior management team.

23 With respect to the effective date of these
24 regulations, Commissioners, should the Commission approve
25 the regulations as proposed, they will take effect

1 immediately upon approval, with one exception: The
2 annuity period for SuperLotto Plus® will remain at
3 26 years, until the change to the 30-year annuity period
4 is ready for full implementation; and the director will
5 provide a notification to the Commission chair when that
6 occurs.

7 The SuperLotto Plus® regulations are contained
8 in section 3.9 of the amended regulations.

9 And, Commissioners, before I conclude and open
10 it up for questions, I would like to thank, first of all,
11 the Commission for your support around this effort; my
12 director, chief deputy, and other Lottery colleagues, for
13 their gracious cooperation and patience during this
14 process; my Lottery legal team, Kimberly West, Daniel
15 Pott, Sherry Vargas, Robindeep Basra for all of the
16 dedicated work that they put in; and a very, very special
17 thanks to the colleague that is to my right, Cathy
18 Van Aken, who did a tremendous amount of work on this
19 project, and really has helped to make this document one
20 that I think will be incredibly useful for the Lottery
21 going forward.

22 So with that, I would like to open it up for
23 any questions you have.

24 CHAIR TAGAMI: Commissioners?

25 VICE CHAIR SMOLIN: I have no questions.

1 I'd just like to echo what you just carried
2 out, thanking everyone, commending everyone for the great
3 work they did.

4 I know you were deeply involved in it, as well
5 as Bob, and Phil was real helpful with this -- everyone.
6 So I'd like to thank you for that.

7 This is a long, tedious project, but -- and not
8 in a bad way. I mean, it's always going to be. But when
9 you change the regulations, it's not a daily thing. It's
10 not a regular occurrence. You know, it's like changing
11 the Constitution or making an amendment. It's a big
12 deal.

13 So you guys did a fantastic job.

14 MS. SOLURI: Thank you, Commissioner.

15 CHAIR TAGAMI: Yes, I share those sentiments.

16 I want to thank you both for your patience
17 through this process and your flexibility and
18 understanding. And I think, ultimately, it's a good
19 product that we can all be proud of.

20 And, you know, we don't have to do this again
21 until next year, right?

22 MS. SOLURI: Absolutely.

23 CHAIR TAGAMI: Okay, so with that, I'll
24 entertain a motion.

25 VICE CHAIR SMOLIN: I'd like to make a motion

1 to adopt the regulations.

2 COMMISSIONER KIRTMAN: Second.

3 CHAIR TAGAMI: You can call the roll.

4 MS. TOPETE: Commissioner Smolin?

5 VICE CHAIR SMOLIN: Yes.

6 MS. TOPETE: Commissioner Kirtman?

7 COMMISSIONER KIRTMAN: Yes.

8 MS. TOPETE: Commissioner Ahern?

9 COMMISSIONER AHERN: Yes.

10 MS. TOPETE: Chairman Tagami?

11 CHAIR TAGAMI: Yes

12 Thank you.

13 Here, here.

14 MS. SOLURI: Thank you.

15 CHAIR TAGAMI: Well done.

16 *(Applause)*

17 CHAIR TAGAMI: Okay, Commissioner General

18 Discussion.

19 Commissioners, do you have anything you want to
20 address or add for the upcoming May and/or June meetings?

21 *(No response)*

22 CHAIR TAGAMI: I just wanted to make -- while
23 you're considering, I wanted to, again, commend everyone
24 for their work on POWERBALL®.

25 I was unable, due to some other obligations,

1 to attend either San Francisco or L.A. But I looked
2 longingly at the photos from L.A. It looks like you were
3 all having a wonderful time. And the media was
4 fantastic. And I think it was a really, really good job,
5 a superior job by everyone. And the extra effort, I
6 think, was reflected in the bottom line.

7 So thanks again for that -- and, Bob, your
8 leadership on that.

9 In our May meeting, we'll be doing -- we'll be
10 requesting from the commissioners, and we'll get a
11 message to our colleague who is not here today, that
12 we'll ask the secretary to take nominations for officers
13 at the May meeting. And that can be done electronically
14 or by telephone to the secretary.

15 And then we would like to calendar the vote in
16 June so it would be concurrent with our budget, when we
17 review the budget.

18 So with that, we do have a May 23rd and
19 June 27th meeting scheduled -- right? Good.

20 Okay, and then are there any -- we have no
21 speakers today?

22 *(No response)*

23 CHAIR TAGAMI: Any items, Commissioners, that
24 you want to bring to the -- or ask us to look at?

25 *(No response)*

California State Lottery Commission Meeting – April 25, 2013

1 CHAIR TAGAMI: Okay, with that, we'll adjourn
2 at the hour of 11:28.

3 *(Gavel was sounded.)*

4 CHAIR TAGAMI: Thank you.

5 *(The Commission meeting concluded.)*

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TRANSCRIBER' S CERTIFICATE

This is to certify that: I transcribed to the best of my ability from an audio file provided to me by the California State Lottery Commission; and the foregoing pages 1 to 74 inclusive, contain a full statement and record of said audio recording.

In witness whereof, I have hereunto set my hand on the 1st day of May 2013.

Cathy S. Dizon